"Adding value... everyday"

Hart Stores Inc. Annual Report 2003

For the year ended February 1, 2003

Overview...

With 61 mid-sized department stores located throughout Quebec and Atlantic Canada, Hart Stores Inc. has established itself as an important player in the Canadian retail market place. With stores occupying a dominant presence in secondary and tertiary markets, the company operates under the Hart, Bargain Giant and Géant des Aubaines banners. Product mix includes national and exclusive apparel brands, home furnishings, housewares, appliances, home electronics, giftware, toys, bed & bath, occasional furniture, family footwear as well as seasonal categories.

Hart has achieved improved sales and profitability by adhering to a marketing strategy focusing on strategic locations in prime malls serving small towns and select suburban communities.

The company is pursuing a carefully planned expansion program. New markets have already been successfully established for fiscal 2002 in the Quebec communities of La Pocatière, Ste-Anne-de-Beaupré and Cap-Rouge. For fiscal 2003, additional leases have been signed for expansion opportunities in St-Nicéphore and LaSalle, Quebec and negotiations are presently being finalized for more stores.

Hart Stores Inc. common shares are traded on the Toronto Stock Exchange under the symbol HIS. The company is headquartered in an 85,000 square foot office and distribution centre in Montreal's Anjou district. The centre houses executive, buying, advertising, accounting, warehousing and distribution functions under one roof, allowing for rapid decision-making and efficient merchandise replenishment in response to an evolving retail environment.

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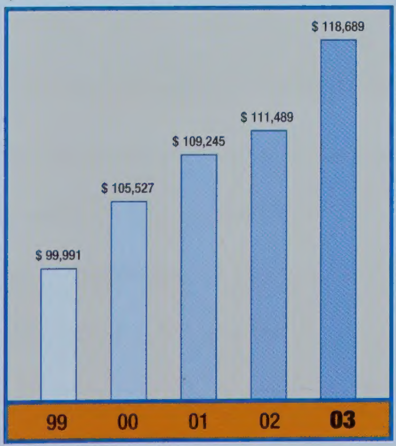
Financial highlights

In thousands of dollars, except per share amounts	2003	2002	2001	2000	1999
			(53 weeks)		
OPERATIONS					
Revenues	**$ 118,689**	$ 111,489	$ 109,245	$ 105,527	$ 99,991
Cash flow from operations	**5,705**	5,838	2,355	1,189	80
Operating income	**8,316**	7,123	4,034	2,113	390
Net earnings (loss)	**4,606**	3,260	874	(491)	(1,793)
Operating income % to revenues	**7.0%**	6.4%	3.7%	2.0%	0.4%
Net earnings (loss) % to revenues	**3.9%**	2.9%	0.8%	(0.5)%	(1.8)%
FINANCIAL STRUCTURE					
Total assets	**$ 41,628**	$ 37,058	$ 38,122	$ 39,738	$ 43,046
Working capital	**25,383**	20,536	16,022	19,628	14,508
Net funded debt	**-**	3,044	9,309	11,424	15,048
Shareholders' equity	**29,275**	24,623	21,358	20,524	20,803
PER SHARE AMOUNTS					
Earnings (loss) per share:					
Basic	**$ 0.35**	$ 0.25	$ 0.07	$ (0.04)	$ (0.14)
Diluted	**0.34**	0.25	0.07	(0.04)	(0.14)
Book value per share	**2.23**	1.90	1.65	1.58	1.61
Average number of shares	**13,099,843**	12,983,411	12,976,864	12,968,536	12,892,864

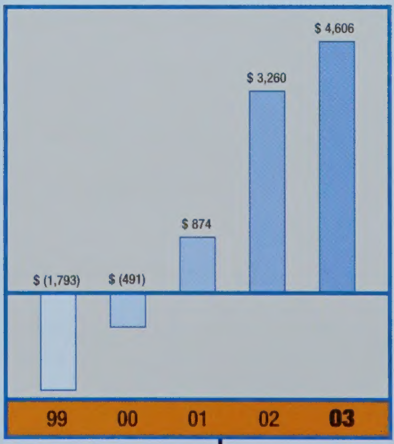
Note: Certain figures have been adjusted for comparative purposes

REVENUES
(in thousands of dollars)



OPERATING INCOME
(in thousands of dollars)

NET EARNINGS (LOSS)
(in thousands of dollars)



President's message to shareholders

"The Canadian consumer wants 'Value'. We must deliver 'Value' in order to succeed in the challenging and competitive world of Retailing".

At Hart Stores, we have created a results-driven organization balancing strategic growth, innovative merchandising and aggressive promotional programs with a common set of 'Values'. These principles have been established to enhance our customer's shopping experience and to promote long-term value to both our clientele and our shareholders.

By adhering to these values, we are well positioned to continue to improve our profitability and thus ensure positive growth.

Financial Review

During 2002, we continued our trend of improved operating performance. Gross Revenues rose 6.5% to a record $118.7 million. Net Earnings increased 41.3% to $4.6 million, and earnings per share increased to $0.35 from $0.25.

We achieved these results during a challenging year, which saw heightened competition and generally reduced consumer spending.

Our continued improved operating performance is the result and success of our strategies and investments for growth. Our job is to continue our winning strategy with improved strength in sales gains, by enhancing the overall customer experience inside our stores.

Completing a very challenging year, we recognize the importance of these values and we are committed to:

1. Providing our customer with value that enhances an outstanding shopping experience.

2. Creating a sustainable competitive advantage.

3. Leveraging our resources by focusing on:
Secondary and tertiary locations as a dominant player in those markets.
Expanding product lines in key growth categories.

4. Developing more compelling creative in-store presentations.

5. Ability to quickly adapt to market changes.

6. Implementing strong promotional and marketing strategies.

7. Further enhance our benefits from strong vendor partnerships.

Our commitment to position ourselves to...

- Continue to focus on our product mix and promotional strategies enabling us to achieve comparable store sales increases.
- Significantly continue to strengthen the financial position of the company by achieving improved cash flow, which gives us the increased opportunity to take advantage of future opportunity.
- Continue to develop a more efficient and cost effective approach to everything we do.
- Continue to differentiate ourselves by distinguishing and enhancing our product mix and advertising which has given us a competitive advantage.
- Take advantage of future opportunities to grow the Business through extension of additional product lines.
- Remain committed to our National campaign offering the theme "Our Prices are Unbeatable" with over 1.3 million circulars across Eastern Canada.
- Drive sales through existing stores with more targeted assortments and delivering more value as a "one-stop shopping" destination to our customers through products and aggressive price points.
- Keep firm control on inventory and continue to monitor expenses. We plan to continue to re-energize our stores through effective strategies with exciting store presentations.

Locations:

Our locations and the size of our stores remain a core competitive advantage for us. We will continue to find locations that give us a dominant position in secondary or tertiary markets. As well, we will benefit from selective communities in neighbourhood markets that have high traffic malls. Our mid-sized stores are key to the "consumer experience", as they accommodate the consumers that are pressed for time and enhance the ease of shopping.

We continued our trend of improved operating performance.

President's message to shareholders (continued)

PRODUCTS:

As we continue to offer our customers an extensive value driven product mix, we will further increase the average purchase made in our stores and continue to grow sales in our existing locations with improved stock turnover.

MERCHANDISING SYSTEM:

Our merchandising system is continuously being updated and adapted to provide synchronization of our strategic vision with clear plans in which we can improve our ability to provide each store with the optimum product mix and quantities to maximize our sales potential. We are committed to maintain a balanced flow and inventory levels at each location.

PEOPLE:

We are working hard to improve performance to ensure accountability and strengthen our team of associates. By doing so, we are building a team of talented retailers towards our mission of improving and providing the Total Customer Satisfaction experience.

Going forward, our objective will be to continue to develop and enhance our team by attaining dynamic and committed individuals to assure our success.

FUTURE — BUSINESS OUTLOOK:

Our merchandising incentives have propelled our sales. In the year just ended, one of the company's major initiatives was to expand our assortments in key growth areas to develop a more compelling and creative in-store presentation. We have positioned ourselves to grow the business with the objective of increasing both existing store sales and expanding our market share with new locations.

We also recognize that success in this highly competitive retail market demands continuous improvement in cost controls and efficiency. Our goal is to continue to be financially strong and to capitalize on opportunities as they present themselves. We are focused and moving in the right direction.

I would like to thank our shareholders for their support. We are committed to creating value to them. We are passionate about our company and customers and we'll work hard to ensure that we deliver results.

I am confident that the future will be rewarding for our Associates and our Shareholders alike.

I would also like to take this opportunity to thank our valued suppliers. Special acknowledgement goes to our valued business associates who have all contributed to the success of our company. All of us at Hart Stores look forward to a continued and prosperous relationship with all those whom we have the pleasure of doing business.

Michael Hart

Michael Hart
President & Chief Executive Officer

Chairman's Message

The improved level of profitability achieved by Hart Stores Inc. reinforces the confidence we have in the Hart management team. The strategies now in place will assure successful future expansion, benefiting our shareholders and associates.

I wish to take this opportunity to thank our strong team of associates. It was their contribution and commitment to the performance of the company that was responsible for the successful achievement of our goals. With their capabilities and creativity we expect that Hart Stores Inc. will continue to meet the challenges ahead and continue to achieve increasing performance levels.

I would like to thank each and every member of the individual Hart Stores locations as well as our directors and vendor partners whose support is crucial to our success. I would also like to thank our shareholders for their continued confidence.

On behalf of the Board of Directors,

Harry Hart

Harry Hart
Executive Chairman

The strategies now in place will assure successful future expansion

Adding value through expansion...

Hart continues its expansion program by actively seeking new store opportunities that meet its criteria.

Three more Hart stores opened for business in 2002 in the Quebec communities of La Pocatière, Ste-Anne-de-Beaupré and Cap-Rouge. With continued confidence in its ability to serve its market effectively, Hart is answering the need for a convenient neighbourhood department store operation, providing a strong value-oriented product mix to secondary markets. Through aggressive and effective merchandising, advertising and promotion, Hart has firmly established its presence in these communities with these stores, making a positive contribution to the company's bottom line.

Leveraging ou

Hart continues its expansion program.

2003 has seen two more Hart stores opening their doors in the communities of St-Nicéphore and LaSalle, Quebec. In addition, leases for more stores are presently being negotiated with grand openings planned for later in the year.

esources through expansion

DURACELL Sunbeam MATTEL Proctor-Silex

Value in our assortments…

With over 40 years of retail experience serving the needs of the Canadian consumer, the Hart team of buyers consistently prove that they can meet the needs of the ever changing consumer with an appealing assortment at the best price.

Our buyers travel the world to source the best merchandise value for our consumer.

Apparel lines are always fresh and stylish, reflecting the dynamic trends of modern families who demand fashion and quality at affordable price points. Household furnishings are always trendy, meeting the needs in every home, and are presented in a friendly shopping environment.

Hart stores offer a full range of merchandise from lingerie and undergarments to designer jeans, tops and outerwear…bed & bath and household appliances to giftware and housewares…toys and home furnishings to gas barbecues and patio sets…and more!

WEST COAST CONNECTION TAG NAVY CREW SPORT Tonka Sterilite Fisher-Price

Typical store layout

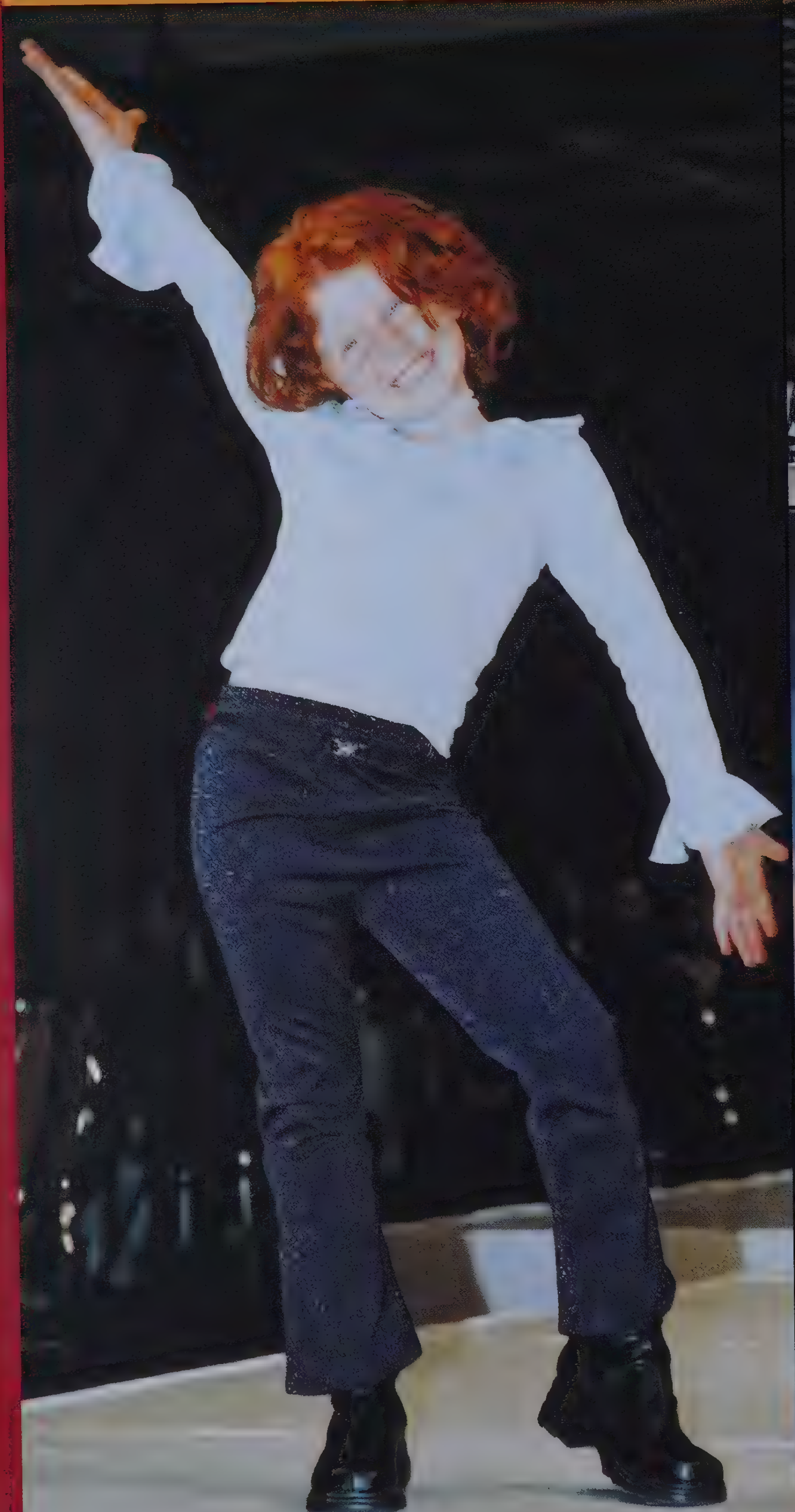
Store sizes average
23,000 sq. ft

Hart stores offer a full range of merchandise.

Traffic is stimulated with an aggressive program of flyer publications featuring outstanding-value specials and the introduction of new lines and products, which are carefully chosen for their seasonal and general appeal. Over 1.3 million households are exposed to the Hart flyer over 25 times per year. Over 35 million circulars are distributed annually, while radio and newspaper advertising helps to support local promotions. Flyer promotions are also reproduced on the web (www.hartstores.com).

KODIAK toastmaster T-FAL Gracious Living Barbie WonderBra

Fashion showcase



The Hart Vendor Gala; our annual salute to our key suppliers & recognized associates

featuring a professionally produced fashion extravaganza highlighting our fashion offerings for every family member. Trends, fabrics, textures, seasonal looks, leisure time, lifestyle and career; Hart showcases a comprehensive cross-section of its fashion lines, and takes this opportunity to recognise its suppliers with awards of merit for innovation, service, reliability and sales effectiveness.

We value our partnerships...

(left to right): Michael Hart, Arek & Neil Markarian (Ameco Paradisio), Ginette Brière (Buyer), Lee Karls & Sheldon Ludwick (Kar-Min Industries)

Value in our partnerships

Giving back to the community

Hart is involved in local events and charities.

REMEMBERING 9/11

On September 11, 2001, passengers aboard Continental Airlines Flight 45 flying from Milan, Italy to Newark, New Jersey, unexpectedly found themselves in Lewisporte, Newfoundland. The New York 9/11 terrorist tragedy had forced their plane to make an unscheduled landing due to the virtual shutdown of air space over the United States. At our Bargain Giant store, they found the true meaning of friendship and hospitality, as the store provided many of them with much-needed clothing (including pyjamas) and other necessities during their wait for their flight to be cleared to continue to its final destination.

MAKING 'FUN' OF A SCARY EXPERIENCE

Hart Stores Inc. is proud to have helped young children cope with an unfamiliar stay in hospital by generously donating much-appreciated toys to the Montreal Children's Hospital.

HELPING PEOPLE HELP THEMSELVES

Hart Lac-Mégantic participates in a local rehabilitation program by providing much needed training and opportunity to local citizens experiencing personal and occupational problems. Hart has participated in this work-related program for the last three years.

Ready for Expansion...

Magasins Hart Stores Inc.

QUEBEC STORES

Amqui
Baie-Saint-Paul
Buckingham
Cabano
Cap-Rouge
Chandler
Châteauguay
Delson
Gaspé
Granby
Labrador City
Lac-Mégantic
La Pocatière
Louiseville
Maniwaki
Matane
Mont-Joli
Montmagny
Pincourt
Repentigny
Rimouski
Rouyn-Noranda
Sainte-Anne-de-Beaupré
Sainte-Anne-des-Monts
Sainte-Marie-de-Beauce
Sainte-Marthe-sur-le-Lac
Saint-Georges-de-Beauce
Saint-Hyacinthe
Saint-Jérôme
Sherbrooke
Terrebonne
Thetford Mines
Trois-Pistoles
Valleyfield
Val-d'Or
Ville de Québec

NEW FOR SPRING 2003

St-Nicéphore
LaSalle

Géant des Aubaines

QUEBEC STORES

Beauport
Charlesbourg
Forestville
Neufchatel
Nicolet
Plessisville
Port-Cartier
Saint-Romuald
Sept-Îles
Val-d'Or
Victoriaville

Bargain Giant

ATLANTIC CANADA STORES

Bay Roberts, NFLD
Carbonear, NFLD
Grand Falls/Windsor, NFLD
Lewisporte, NFLD
Miramichi, NB
Port-aux-Basques, NFLD
Port Hawkesbury, NS
Saint-Basile, NB
Shelburne, NS
Stephenville, NFLD
Sussex, NB
Yarmouth, NS

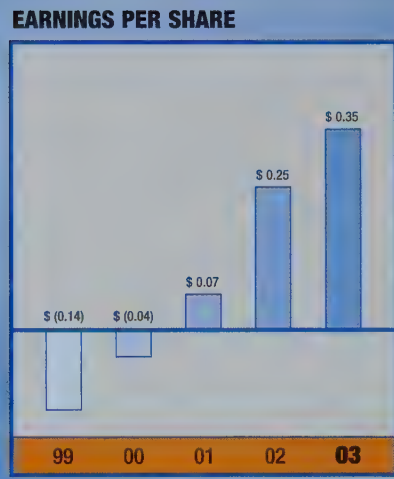
Our locations

61 strategic locations serving Eastern Canada achieving critical mass

Hart continued expansion plans.

emain a core competitive advantage

Management's Discussion and Analysis



Operations Summary

Hart Stores Inc. operates a network of mid-sized department stores under the Hart, Bargain Giant and Géant des Aubaines banners located in secondary and tertiary markets across Quebec and the Atlantic Provinces. The stores offer a wide selection of value priced merchandise in both fashion apparel and home furnishings. Gross leasable area of all the stores is 1.4 million square feet. The average store size is 23,000 square feet, ranging from the smallest at 15,000 square feet and the largest at 35,000 square feet. The company employs over 1,000 associates.

Highlights

Fiscal year ended February 1, 2003 compared with fiscal year ended February 2, 2002: sales increased by 6.5% to $118.7 million. Same store sales increased by 2.5%. Three new stores were opened in fiscal 2003. Net earnings increased by 41.3% to $4.6 million or 3.9% of sales compared to 2.9% in fiscal 2002. Net earnings, in the final quarter of the year, marked the 13th consecutive quarter of improvements over the comparable quarter. Return on shareholders equity before taxes was 24.3% in fiscal 2003 compared to 20.4% in fiscal 2002.

Subsequent Events

Subsequent to the fiscal year ending 2003 the Company extended its credit agreement with Congress Financial Corporation for an additional three-year term. Under the terms of the amended agreement the credit facility available increased to $25 million, giving the Company greater financial flexibility.

On April 4, 2003 the Company opened two new stores in the Province of Quebec. The new stores are located in Saint-Nicéphore, near Drummondville and the other in Ville LaSalle, now a borough of Montreal. This brings the total retail network to 61 locations.

Liquidity & Capital Resources

The management of the Company believes that it has adequate financial and non-financial resources to effectively execute its strategy.

The Company's primary financial resources have been from operations and borrowings under the revolving credit agreement with Congress Financial Corporation. The principal uses have been to finance inventory requirements, store openings

Quarterly information
(in thousands of dollars)

	Revenues					Net Earnings (loss)				
(weeks)	2003 (52)	% Inc.	2002 (52)	% Inc.	2001 (53)	2003 (52)	% Inc.	2002 (52)	% Inc.	2001 (53)
Quarter 1	20,345	5.2%	19,341	0.7%	19,207	(423)	49.5%	(838)	30.7%	(1,209)
Quarter 2	28,424	11.8%	25,428	1.9%	24,949	929	54.3%	602	410.2%	118
Quarter 3	32,093	9.8%	29,216	3.3%	28,292	1,062	40.1%	758	63.0%	465
Quarter 4	37,827	0.9%	37,504	1.9%	36,797	3,038	11.0%	2,738	82.5%	1,500
Year	118,689	6.5%	111,489	2.1%	109,245	4,606	41.3%	3,260	273.0%	874

and renovations as well as other working capital requirements. At February 1, 2003 none of the available $20 million credit facility with Congress Financial Corporation was utilized. This compares to $3.0 million drawn at the end of the previous fiscal year and $9.3 million at the end of the year before. At any given time during the financial year the amount outstanding fluctuates based on the seasonality of business requirements. The Company presently does not foresee circumstances that would require reaching the maximum provided under this facility.

Results of Operations

Revenues:

For the fiscal year ended February 1, 2003, revenues reached a record level of $118,689,000, an increase of 6.5% compared to revenues of $111,489,000 in the previous year. Same-store sales increased by 2.5%.

During the year three new stores were opened in the Province of Quebec, in the towns of La Pocatière, Ste-Anne-de-Beaupré and Cap-Rouge and one store was renovated in Montmagny, Quebec. The increase in same-store sales was a continuation of the positive trend the Company had attained in the previous years of 2%, 6% and 10% during fiscal 2002, 2001 and 2000, respectively.

A review of the year shows that same-store sales increased in every quarter, with the exception of the fourth quarter.

Operating Income:

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the period ended February 1, 2003 was $8,316,000, an increase of 16.7% from the previous year of $7,123,000.

The increase of $1.2 million for fiscal 2003 represents the fourth consecutive year where the Company reported year over year improvements of EBITDA. Increases in the previous years were $3.1 million, $1.9 million and $1.7 million related to fiscal 2002, 2001 and 2000, respectively.

The Company attributes the improvements to the following factors: Improved merchandise buying opportunities, strong promotional events, increased sales levels resulting from new store openings, positive same-store sales increases, prudent management of the cost structure and focused inventory management.

Interest:

The net interest costs for the period ended February 1, 2003 was $280,000, compared to $683,000 in the previous year. The reduction in interest costs was the result of lower borrowing levels achieved through improved cash management techniques and more cash flow generated from operations.

Earnings per share			
(weeks)	2003 (52) $	2002 (52) $	2001 (53) $
Quarter 1	**(0.03)**	(0.06)	(0.09)
Quarter 2	**0.07**	0.04	0.01
Quarter 3	**0.08**	0.06	0.03
Quarter 4	**0.23**	0.21	0.12
Year	**$0.35**	$0.25	$0.07

Depreciation and Amortization:

Expenses related to depreciation and amortization in the year ended February 1, 2003 totaled $930,000, compared to $1,422,000 in the previous year. The improvement is mainly due to the one time write-down of software costs in the amount of $0.4 million included in depreciation and amortization expense in fiscal 2002.

Earnings Before Income Taxes and Net Earnings:

Earnings before income taxes for the year ended February 1, 2003 reached $7,106,000, a 41.6% increase, compared to the previous year amount of $5,018,000. Net earnings increased 41.3% to $4,606,000 or $0.35 per share compared to $3,260,000 or $0.25 per share in the previous year. Return on shareholders' equity was 24.3% before taxes compared to a 20.4% return in the previous year.

Balance Sheet:

Total assets stood at $41.6 million at February 1, 2003 compared with $37.1 million a year earlier. The difference is due largely to increased cash levels as well as inventory levels required for three additional stores. Management continued to focus on improving inventory turnover and carefully managing inventory levels.

As at February 1, 2003, the Company's working capital stood at $25.4 million compared to $20.5 million in the previous year. The current ratio at the end of the year was 3.1:1 compared to 2.7:1 in the previous year. The Company had no borrowings at the end of fiscal 2003 compared to $3.0 million at the end of the previous year. Shareholders equity increased by $4.7 million or 18.9% to $29.3 million from $24.6 million at the end of the previous year. Book value amounted to $2.23 per share compared to $1.90 per share in the previous year.

Risk & Uncertainties

The Company is exposed to various external risk factors and uncertainties that may affect the performance of the Company. Management has the responsibility of mitigating these risks to the extent possible.

The primary financial risk factors to which the Company is exposed to are related to fluctuations in interest rate levels and foreign currency fluctuations. These risks have been reduced as a result of lower borrowing levels and marginal volume of foreign transactions in relation to the Company's total volume. Interest payable under the terms of revolving credit facility is based on a variable rate, as such the Company is exposed to interest rate fluctuations.

The Company is also exposed to the following external risk factors: the economic climate, consumer confidence levels, weather dependency and competition. The Company cannot control these risks, but it has taken certain actions to mitigate them.

Share Trading

The share price fluctuated between $1.20 and $2.36, while the trading volume on the Toronto Stock Exchange totaled 1.7 million during the year. The share price stood at $1.65 at the close of markets on January 30, 2003, up from $1.40 at January 31, 2002, an appreciation of 18%. The share price was relatively strong in context of declining equity values caused by a global economic slowdown.

Outlook

Following another year of record earnings and revenues, the Company continues to focus on maintaining and improving its profitability levels. This will be realized through revenue growth on a same-store basis as well as new store growth. The Company will also continue to maintain strict cost structure controls, constantly challenging non-selling expenses.

Management believes that the measures it has taken and strategies it has developed will continue to maintain its profit levels as was witnessed in the past several fiscal years with improved financial results.

Robert Farah
Vice President, Secretary and Chief Financial Officer

Financial Statements

Management's Responsibility for the Financial Statements

The management of Hart Stores Inc. is responsible for the integrity of the accompanying financial statements and all other information in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on best estimates and informed judgements. All financial information in the annual report is consistent with that contained in the financial statements.

Hart Stores Inc. maintains effective systems of internal accounting and administrative controls consistent with reasonable cost. Existing systems are designated to provide reasonable assurance and reliability and that the Company assets are adequately accounted for and safeguarded. The Audit Committee, which is comprised of three outside directors, meets with representatives of the Company's auditors, and with members of management to satisfy itself that policy is being followed.

The financial statements have been reviewed by the Audit Committee and together with the other required information in this annual report, have been approved by the Board of Directors. The Company's auditors, Deloitte & Touche LLP, chartered accountants, have examined these financial statements and their report follows.

Michael Hart

Michael Hart
President & Chief Executive Officer

Robert Farah
Vice President, Secretary and Chief Financial Officer

Auditors' report

To the Shareholders of Hart Stores Inc.

We have audited the balance sheets of Hart Stores Inc. as at February 1, 2003 and February 2, 2002 and the statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 1, 2003 and February 2, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
March 14, 2003, except as to note 4b) which is as April 14, 2003
Montréal, Québec

Statements of earnings

for the years ended February 1, 2003 and February 2, 2002
(in thousands of dollars, except per share amounts)

	2003	2002
	$	$
Sales	**118,689**	111,489
Cost of sales and expenses excluding the undernoted items	**110,373**	104,366
Earnings before the undernoted items	**8,316**	7,123
Interest on long-term debt	**-**	17
Other interest	**280**	666
Depreciation and amortization	**930**	1,422
	1,210	2,105
Earnings before income taxes	**7,106**	5,018
Income taxes (Note 7)	**2,500**	1,758
Net earnings	**4,606**	3,260
Earnings per share (Note 5)		
Basic	**0.35**	0.25
Diluted	**0.34**	0.25

Statements of retained earnings

for the years ended February 1, 2003 and February 2, 2002
(in thousands of dollars)

	2003	2002
	$	$
Balance - beginning of year	**285**	(2,975)
Net earnings	**4,606**	3,260
Balance - end of year	**4,891**	285

Balance sheets

as at February 1, 2003 and February 2, 2002
(in thousands of dollars)

	2003	2002
	$	$
Assets		
Current assets		
Cash	**2,889**	-
Accounts receivable	**2,663**	2,203
Accounts receivable - common controlled entity	**-**	188
Inventory	**31,989**	29,348
Prepaid expenses	**195**	1,232
	37,736	32,971
Property, plant and equipment (Note 2)	**3,629**	3,780
Other assets (Note 3)	**154**	264
Future income taxes (Note 7)	**109**	43
	41,628	37,058
Liabilities		
Current liabilities		
Bank overdraft	**-**	625
Indebtedness under revolving credit facility (Note 4)	**-**	3,044
Accounts payable and accrued liabilities	**9,346**	7,346
Accounts payable - common controlled entity	**45**	-
Income taxes payable	**1,753**	334
Future income taxes (Note 7)	**1,209**	1,086
	12,353	12,435
Shareholders' equity		
Capital stock (Note 5)	**24,384**	24,338
Retained earnings	**4,891**	285
	29,275	24,623
	41,628	37,058

On behalf of the Board:

Harry Hart

Harry Hart, Director

Gérard Limoges

Gérard A. Limoges, Director

Statements of cash flows

for the years ended February 1, 2003 and February 2, 2002
(in thousands of dollars)

	2003	2002
	$	$
Cash flows provided by (used in):		
Operating activities		
Net earnings	**4,606**	3,260
Items not affecting cash and cash equivalents:		
Depreciation and amortization	**930**	1,422
Amortization of deferred financial costs	**112**	113
Future income taxes	**57**	1,043
	5,705	5,838
Change in working capital items (Note 6)	**1,588**	(741)
	7,293	5,097
Financing activities		
Change in indebtedness under revolving credit facility	**(3,044)**	(6,226)
Change in long-term debt	**-**	(39)
Employee share options exercised	**46**	5
	(2,998)	(6,260)
Investing activities		
Net additions to property, plant and equipment	**(781)**	(243)
Net increase (decrease) in cash and cash equivalents	**3,514**	(1,406)
Cash and cash equivalents, beginning of year	**(625)**	781
Cash and cash equivalents, end of year	**2,889**	(625)
Additional cash flow information		
Interest paid	**145**	688
Income taxes paid	**1,243**	1,197

Notes to Financial Statements

as at February 1, 2003 and February 2, 2002 (in thousands of dollars, for tabular figures only)

1. ACCOUNTING POLICIES

Financial period

The Company's year-end is the Saturday closest to January 31st.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the retail method.

Property, plant and equipment

Property, plant and equipment are recorded at original cost and are depreciated as follows:

Furniture and equipment	20% diminishing balance
Computer equipment	20% straight-line
Rolling stock	30% diminishing balance

Leasehold improvements are amortized on the straight-line basis over the lesser of their estimated useful lives and the terms of the leases plus first renewal options.

Other assets

Deferred financial costs are amortized using the straight-line method over three years.

Software represents software used by the Company. It is recorded at original cost and is amortized using the straight-line method at a rate of 20%.

Revenue recognition

Revenues are recognized at the time of the sale to the customer.

Store opening expenses

Store opening costs are expensed as incurred.

Future income taxes

Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using current tax rates or substantively enacted tax rates as an estimate of these, which will be in effect when the differences are expected to reverse.

Earnings per share

During the year ended February 2, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA"), with respect to earnings per share. Under the revised standard, the treasury stock method is used instead of the imputed earnings approach for determining the dilutive effect of options issued and other similar instruments. Reconciliation of the numerators and denominators used in the calculation of basic and diluted income per share is presented in accordance with the recommendation.

Employee stock option plan

The Company has a stock-based compensation plan where options to purchase common shares are issued to directors, officers and employees.

Effective February 3, 2002, the Company adopted the new recommendations of the CICA relating to "Stock-based compensation and other stock-based payments." These recommendations require that direct awards of stock be measured and recognized at fair value and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the income. The recommendations encourage, but do not require, the use of the fair value method for all other types of stock-based compensation plans for employees. These recommendations apply to awards granted by the Company on or after February 3, 2002.

The Company's plan does not qualify as direct awards of stock or as plans that create liabilities based on the price of the Company's stock, and as a result, the implementation of the recommendations had to impact on the financial statements.

The Company, as permitted by Section 3870, has chosen to not use the fair value method to account for stock-based employee compensation plans and do not record any compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of options is credited to share capital of the Company.

Segmented information

Management has determined that the Company operates in one industry and geographic segment. Specifically, the Company operates in the mid-sized junior department store industry and in the geographic region of Eastern Canada.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	Cost $	Accumulated Depreciation $	Net Book Value $	Cost $	Accumulated Depreciation $	Net Book Value $
Leasehold improvements	**4,731**	**4,220**	**511**	4,718	3,997	721
Furniture and equipment	**15,536**	**12,504**	**3,032**	14,855	11,840	3,015
Computer equipment	**754**	**670**	**84**	693	652	41
Rolling stock	**44**	**42**	**2**	44	41	3
	21,065	**17,436**	**3,629**	20,310	16,530	3,780

3. OTHER ASSETS

	2003			2002		
	Cost $	Accumulated Amortization $	Net Book Value $	Cost $	Accumulated Amortization $	Net Book Value $
Software	**241**	**139**	**102**	216	116	100
Deferred financial costs	**337**	**285**	**52**	337	173	164
	578	**424**	**154**	553	289	264

4. INDEBTEDNESS UNDER REVOLVING CREDIT FACILITY

a) The Company has a $20 million credit facility with Congress Financial Corporation. Under the terms of the agreement, the interest payable is prime plus 0.5%. The facility is secured by a general security agreement against all assets of the Company. As at February 1, 2003, the Company is in compliance with all covenants.

b) On April 14, 2003, the Board of Directors of the Corporation approved an amendment to the credit facility with Congress Financial Corporation for an additional three-year term. Under the amended agreement, the credit facility available increased to $25,000,000 and bears interest at prime rate.

5. CAPITAL STOCK

a) Authorized

An unlimited number of:
- Class A preferred shares issuable in series
- Class B preferred shares issuable in series
- Common shares

	2003	2002
Issued 13,130,930 Common shares (12,992,503 in 2002)	**$ 24,384**	$ 24,338

During the year, 138,427 (2002 - 15 639) options were exercised for a cash consideration of $46,000 (2002 - $5,000).

b) Employee stock option plan

The Company has a stock option plan for directors and employees which provides for the purchase of common shares up to a maximum number of 1,700,000 issuable shares. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. The rights relating to the options are vested over five years at a rate of 20% per year.

A summary of the status of the Company's stock option plans as of February 1, 2003 and February 2, 2002, and changes during the years ending on those dates is presented below:

	2003		2002	
	Shares	Weighted Average Exercise Price $	Shares	Weighted Average Exercise Price $
Outstanding, beginning of year	**809,976**	**0.44**	657,697	0.54
Granted	**-**	**-**	275,000	0.68
Exercised	**(138,427)**	**0.33**	(15,639)	0.30
Cancelled	**-**	**-**	(31,728)	2.50
Expired	**(1,983)**	**0.30**	(75,354)	1.43
Outstanding, end of year	**669,566**	**0.45**	809,976	0.44
Exercisable, end of year	**297,772**	**0.43**	279,390	0.38

5. CAPITAL STOCK (continued)

The following tables summarize information about the stock options at February 1, 2003 and February 2, 2002, respectively:

2003	**Options outstanding**			**Options exercisable**	
Range of Exercise Prices	Number Outstanding at February 1	Weighted Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at February 1	Weighted Average Exercise Price
$			$		$
0.30 to 0.31	**405,966**	**7.5 years**	**0.31**	**199,172**	**0.31**
0.68	**263,600**	**8.4 years**	**0.68**	**98,600**	**0.68**
	669,566	**7.8 years**	**0.45**	**297,772**	**0.43**

2002	Options outstanding			Options exercisable	
Range of Exercise Prices	Number Outstanding at February 2	Weighted Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at February 2	Weighted Average Exercise Price
$			$		$
0.30 to 0.31	534,976	8.4 years	0.31	224.390	0.31
0.68	275,000	9.6 years	0.68	55,000	0.68
	809,976	8.9 years	0.44	279,390	0.38

An additional 843,468 common shares are reserved for the granting of options at prices not less than the market value of the shares at that time.

c) Earnings per share calculation

	2003	2002
Net earnings - basic and diluted	**$4,606**	$3,260
Weighted average number of common shares outstanding	**13,099,843**	12,983,411
Effect of dilutive stock options	**501,241**	267,779
Weighted average number of diluted common shares outstanding	**13,601,084**	13,251,190

All options outstanding were included in the calculation of diluted earnings per share.

6. CHANGE IN WORKING CAPITAL ITEMS

	2003	2002
	$	$
Accounts receivable	**(272)**	(2,360)
Inventory	**(2,641)**	1,298
Prepaid expenses	**1,037**	96
Accounts payable and accrued liabilities	**2,000**	377
Accounts payable - common controlled entity	**45**	-
Income taxes payable	**1,419**	(152)
	1,588	(741)

7. INCOME TAXES

Income taxes included in the statements of earnings differ from the statutory tax rate as follows:

	2003	2002
	$	$
Earnings before income taxes	**7,106**	5,018
Statutory income tax rate	**35.97%**	38.31%
Income taxes based on statutory income tax rate	**2,556**	1,922
Large corporation tax	**-**	(194)
Non-deductible expenses and other adjustments	**(56)**	30
Income taxes	**2,500**	1,758

7. INCOME TAXES (continued)

The provision for income taxes is as follows:

	2003	2002
	$	$
Current	2,443	715
Future	57	1,043
	2,500	1,758

The overall tax effect of temporary differences that give rise to the Company's future tax is as follows:

	2003		2002	
	Short-term $	Long-term $	Short-term $	Long-term $
Future income tax asset: property, plant and equipment	-	109	-	43
Future income tax liability: accounts receivable	1,209	-	1,086	-

8. CONTRACTUAL OBLIGATIONS

As at February 1, 2003, the minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible, are as follows:

2004	2005	2006	2007	2008	Thereafter	Total
6,381	5,970	4,096	2,193	1,738	4,937	25,315

Certain of the lease agreements provide for additional annual rentals based on sales.

9. RELATED PARTY TRANSACTIONS

Transactions with related parties occurred within the normal course of business and have been measured at their exchange amount.

	2003	2002
	$	$
Purchases - common controlled entity	19	100
Net rent expense - common controlled entity	210	139
Administration fee - common controlled entity	98	157

10. FINANCIAL INSTRUMENTS

Risk management

The Company is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates.

Fair values

Fair values of financial assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable and willing parties. Fair value is based on available public market information or, when such information is not available, is estimated using present value echniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments.

At February 1, 2003, the fair value of all financial instruments approximates carrying value.

Corporate Information

Directors

Harry Hart,
Executive Chairman,
Hart Stores Inc.

Michael Hart,
President & Chief Executive Officer
Hart Stores Inc.

Stephen Hart,
Lawyer
Hart, Saint-Pierre

Gérard A. Limoges,
Director

Brian Smith,
Leasing Executive
Oberfeld Snowcap Inc.

Officers & Management

Michael Hart,
President & Chief Executive Officer

Robert Farah,
Vice President, Secretary &
Chief Financial Officer

Michel Lussier,
Director Store Operations

Howard Michaels,
Vice President Merchandising

Salvatore Pugliese,
Director Information Technology

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Listing of Stock

Toronto Stock Exchange

Symbol

HIS

Registrar and Transfer Agent

Computershare Investor Services Inc.

Auditors

Deloitte & Touche LLP

Principal Financial Institution

Congress Financial Corporation (Canada)

Annual Meeting

The Annual General Meeting of Shareholders will be held on Tuesday, June 10, 2003, at 10:30 a.m. at Ruby Foo's Hotel, 7655 Decarie Blvd., Montreal, Quebec.

Further Information

Shareholders requiring further information concerning Hart Stores Inc. should refer to the corporation's web site at the following address: www.hartstores.com or send an e-mail to hartstoresinfo@hartco.com

Magasins
Hart
Stores Inc.

www.hartstores.com